

UNITED STATES BANKRUPTCY  
COURT FOR THE SOUTHERN  
DISTRICT OF TEXAS HOUSTON  
DIVISION

IN RE:	§	CASE NO. 16-32083
INNOVATION MACHINING	§	
SOLUTIONS, LLC	§	
Debtor	§	CHAPTER 11
	§	

**RESPONSE AND OPPOSITION OF KANDLE OILFIELD PRODUCTS, INC.,  
TO MOTION OF UNITED STATES TRUSTEE TO DISMISS CASE WITH  
PREJUDICE, OR IN THE ALTERNATIVE, TO CONVERT CASE TO CHAPTER**

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TO THE HONORABLE UNITED STATES BANKRUPTCY COURT:

Respondent, Kandle Oilfield Products, Inc., a creditor herein (“Kandle”, or “Respondent”), files the following RESPONSE AND OPPOSITION OF KANDLE OILFIELD PRODUCTS, INC., TO MOTION OF UNITED STATES TRUSTEE TO DISMISS CASE WITH PREJUDICE, OR IN THE ALTERNATIVE, TO CONVERT CASE TO CHAPTER 7 (“Motion”):

1. **Kandle admits almost all allegations of Motion; but requests Conversion, not Dismissal.** Kandle Admits the allegations in the Motion as found in Paragraphs 1 through 22, and those in paragraph 24. Kandle denies that the allegations in paragraph 23 and the requested relief of a mere dismissal of this case; as such dismissal is not in the best interest of the creditors. Rather this case should be converted to a Chapter 7 Case,

included as this Court should also consider other issues not referenced or reviewed in the Trustee's Motion.

2. **Additional Issues Relevant to Motion Issues.** Trustee has not been involved in, and did not reference in the Motion the progress through this case of the key litigation and global settlement between Debtor and Kandle, although its effect and impact on the Motion issues and best interests of the creditors is profound. A brief recap of the key points helps in the consideration of the Motion.

a. **Kandle /Debtor lawsuit involved title and ownership to almost all of Debtor's scheduled assets.** In December 2014, Kandle as a first perfected blanket lien creditor, foreclosed on and took title to substantially all of Debtor's assets. Debtor's state court case challenged the sale and Kandle's title, but one day prior to trial, Debtor filed this Bankruptcy case, the stay lifted and such case was removed by Kandle to this Bankruptcy Court, where it is pending, and unadjudicated under Adversary no. 16-03158 ("Adversary"). Pending the Adversary lawsuit outcome, either Kandle owns almost all of Debtor's assets as scheduled in this case, or not; and substantial monetary claims between them (each side claiming in excess of \$1million in damages owed by the other) would be resolved.

b. **Global Debtor/Kandle/Challenger Settlement dramatically impacts Estate and Conversion Issues.** In the Adversary, at a scheduling conference on September 21, 2016, Debtor and Kandle announced that along with settlement cash consideration to be paid by Challenger Tool and Equipment Co., Inc., Debtor and Kandle had reached

a binding global settlement, including key terms that would dramatically impact this Motion, the Estate and its claims and assets, to wit:

- i) that , on Challenger's payment to Kandle, the Adversary would be settled and dismissed with prejudice, and all claims between Debtor and Kandle mutually settled and released, with Kandle withdrawing all its claims in the main case ( of approx. \$1.5 million); and
- ii) Most importantly, all of the assets claimed and scheduled by Debtor in this case would be released from Kandle's title claims, thereby vesting in Debtor its full unencumbered ownership of all its scheduled assets (except for the released claim against Kandle).

The completion of the settlement vests Debtor with clear title to : (a) machinery and equipment valued at \$74,915.00; (b) other property valued at \$317,435.00; (c) office furniture valued at \$3,900.00; (d) inventory valued at \$2,200.00; (e) accounts receivable valued at \$8,947.50; (f) deposits valued at \$8,339.00; and (g) cash in bank accounts of \$14,150.18. Kandle believes the drawings, designs and intellectual property scheduled by Debtor as of being unknown value is, in fact, very valuable. As of this settlement, there will be significant and valuable assets with which to pay creditors in a Chapter 7 conversion; and it is the best interest of the estate and creditors to conclude the settlement upon or in connection with a Conversion to Chapter 7.

c. **Unique Procedural Status also Supports Conversion.** As the Motion noted, after the global settlement announcement, Counsel for Debtor withdrew, by Court Order. The global settlement is pending, but is not concluded, and it can best be wrapped up

with a Chapter 7 Trustee succeeding as the estate representative. Of course on such being concluded, such Chapter 7 estate will also be vested with very substantial unencumbered assets, immediately accessible for sale and distribution to creditors by the Trustee. Conversion to Chapter 7 is the best and only remedy here; especially as opposed to a mere dismissal's resulting procedural mess, its lack of Adversary and settlement resolutions, and its failure to administer the substantial Debtor assets for creditor payments.

3. Kandle requests that, in the best interests of the creditors, this case be converted to a Chapter 7 case, and that it have such other and further relief to which it may be entitled.

Respectfully Submitted,

/s/James J. Hansen

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**CERTIFICATE OF SERVICE**

I hereby certify that on November 23, 2016, a true and correct copy of the above and foregoing was mailed by electronic mail or by first class regular mail to interested parties at their addresses of record as scheduled below.

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Case 16-32083

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